

# IN THE COURTROOM

## *The Way We See it*

One month into 2008 ... have room for one more resolution? How about: "Avoid litigation this year"?

Here is a brief update of some recent developments in the areas of intellectual property, commercial and employment law and some practical advice as to what you can do now to avoid litigation in the future. If you are already facing litigation, these tips may benefit your litigation strategy or help facilitate a cost-effective settlement.

**D&G**

DAVIS & GILBERT LLP

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## In This Issue:

- RISKS OF COPYING SUBSCRIPTION PUBLICATIONS
- THE HIDDEN COST OF WORKING WITH BIG PHARMA
- "NOT BINDING WITHOUT WRITTEN CONTRACT" MEANS JUST THAT
- EMPLOYERS CAN OFTEN AVOID COSTLY DISCRIMINATION TRIALS THANKS TO WRITTEN EMPLOYEE PERFORMANCE REVIEWS
- WHEN SHOW BUSINESS HAD NO BUSINESS ... MEDIATION HELPED

### RISKS OF COPYING SUBSCRIPTION PUBLICATIONS

In *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 302 F. Supp. 2d 455 (D. Md. 2004), a jury awarded \$20 million in damages to the publisher of Lowry's Reports for willful copyright infringement by one of its subscribers, Legg Mason, Inc. For more than a decade, Legg Mason paid for and received a single copy of the daily and weekly editions of the reports, and posted them on the company's intranet and distributed multiple copies throughout the organization. This was a violation of Lowry's copyright and of the subscriber agreement between Lowry and Legg Mason. The publisher learned about the infringement in a phone call with a Legg Mason's employee; discovery revealed its full extent.

Once liability is established under the Copyright Act, a publisher is entitled to seek damages - which can range from \$750 to \$30,000 per work infringed - and could add up to a substantial amount depending upon the number of issues of the publication involved. Damages may be increased to a maximum of \$150,000 if the infringement is found to be willful, such as when there is a systemic pattern of copying, or a signed subscription agreement in place that prohibits copying.

Publishers depend on subscribers to pay for content, and they view illegal copying and distribution of their publications as a serious problem, particularly because it's so easy. Simply hitting "forward" on an email which contains content (and not just a link to an article) can create and distribute illegal copies. The Lowry's Reports case has encouraged publishers to enforce their copyrights and subscription agreements by hunting out infringers. Indeed, since the Lowry's Reports decision, a growing number of publishers of daily, weekly and monthly publications (including several publications targeted to advertising, public relations and marketing firms) have installed tracing software into the on-line version of their publications that tracks each time their electronic publications are copied, forwarded, or printed. Big Brother is watching and this has sharply increased the detection and exposure in the last several months.

## The Way We See It

Copying electronic publications is easy, but so is getting caught. We recommend that our clients take some simple steps to prevent the illicit copying of publications to which they subscribe. The penalty for infringement, as we saw in the Lowry's Reports case, can be very steep.

First, appoint someone to manage subscriptions and channel them to those employees who need them. The subscription manager must understand the uses allowed under those subscriptions, and communicate the allowed uses to others.

Second, develop a clear written policy explaining potential copyright and contractual violations in the context of subscription publications, warning employees against illicit copying, and encouraging them to bring any concerns to the subscription manager's attention.

Third, conduct periodic audits to determine the number of subscriptions needed. If multiple subscriptions or an enterprise-wide subscription is too expensive, it is best to obtain hard-copy subscriptions that can be circulated via routing lists (making sure that no copies are made in the process).

Finally, institute some internal monitoring mechanisms (such as searches of the company's servers) to ensure that electronic publications are not being illicitly copied. These steps should reduce the chances of illicit copying and, if any such copying occurs, militate against a finding of willfulness.

### THE HIDDEN COST OF WORKING WITH BIGPHARMA

On January 14, 2008, Merck/Schering-Plough Pharmaceuticals announced the results of a 2006 clinical trial that will cripple the sales of its blockbuster drugs Zetia and Vytorin. Zetia, which has been prescribed for millions of patients, had been shown in previous trials to reduce cholesterol 15-20%. Zetia is a main component of Vytorin, another anti-cholesterol compound from Merck/Schering-Plough. According to the recently-reported study, Zetia does not reduce fatty plaques in arteries and, therefore, does not reduce the risk of heart attacks or strokes.

Zetia and Vytorin join a growing list of drugs grabbing unwanted attention lately. This announcement came within weeks of the unsealing of a whistleblower action against Pfizer concerning its marketing of Lipitor, and hot on the heels of Merck's multi-billion dollar settlement of 27,000 claims by patients who took Vioxx.

Long after they first hit the market, drugs may come under fire for adverse effects (as with Vioxx), or insufficient effects (as with Zetia and Vytorin). It is too early to predict the fallout for Merck/Schering-Plough - patients taking Zetia and Vytorin have been advised to consult their doctors immediately, and the nearly two-year delay in reporting the results of the clinical trial is being investigated by Congress. We're hardly out on a limb in expecting that the manufacturer of Zetia, will ultimately be an attractive target for litigation.

Legal actions involving BigPharma come in many shapes, but their sizes

# The Way We See it



tend to start with large. There are investigations and criminal prosecutions by U.S. Attorneys, as well as whistleblower actions in which a current or former employee sues on behalf of the government under the False Claims Act, alleging, for example, improper promotion of drugs for off-label uses. In addition, generic-drug manufacturers have brought suits alleging improper efforts to extend patents or otherwise hobble sales of generic versions of a drug. There have also been individual or class actions for personal injuries, alleging that, for example, the risks of the drug were hidden from patients and that the drug caused injuries. Lastly, we have seen third-party payor complaints, in which insurance companies try to recover what they paid out over the years for their insureds' prescriptions for the drug, now alleged to be ineffective or insufficiently effective.

## The Way We See It

What does this mean for the advertising, public relations and medical communications agencies that worked on promotional campaigns for the drugs? The short answer is: subpoenas, subpoenas. Agencies have documents, and investigators and plaintiffs want them. Unfortunately, in many instances, the only source of reimbursement for the costs and burden of dealing with these subpoenas will be the agency's client, the pharmaceutical company itself. Faced with mounting defense costs, or after the agency-client relationship has come to an end, a pharmaceutical company may not agree to cover an agency's subpoena-related expenses. That's why an indemnification provision in the agency-client agreement is vital, and the time to negotiate it is before any problems arise.

In calculating the risks of doing business with BigPharma, you should not ignore the potentially high costs of compliance with subpoenas. A broad indemnification agreement can protect an agency's bottom line from taking a hit when regulatory bodies or plaintiffs' attorneys start coming after drug manufacturers. An indemnification agreement may not always be possible, but we'd be pleased to assess your situation, and help in drafting/negotiating such an agreement.

### "NOT BINDING WITHOUT WRITTEN CONTRACT" MEANS JUST THAT

New York courts traditionally have held that when a party states in writing that it will not be bound to any agreement until a written contract is executed, no contract exists until a formal written document is signed. This often becomes contentious when parties agree to conditions set out in a term sheet or other such memo, and one party starts living up to the understanding - but the parties never execute a written contract. The Appellate Division, First Department recently affirmed this long standing rule in *Jordan Panel Systems Corp. v. Turner Construction Co.*, 841 N.Y.S.2d 561 (1st Dept. 2007).

Jordan Panel had bid on a contract with Turner Construction. After

the parties had negotiated most of the terms, Turner sent Jordan Panel a term sheet. The term sheet provided that Turner would not be bound to anything, including any obligation to make payments for work performed, or for anticipated profits, until the parties executed a contract.

Jordan Panel alleged that after Turner delivered the term sheet, the parties agreed on the only open issue (price), and with that detail settled, Turner told Jordan Panel that it had been awarded the job. Turner, according to Jordan, instructed the contractor to start work on the design phase of the project immediately. Ten days later, Turner told Jordan Panel that it would not be entering into a contract with Jordan Panel, but instead would go with another firm. Jordan Panel sued Turner, charging that Turner had entered a binding contract. According to Jordan Panel, Turner waived the term sheet provision requiring execution of a written contract when, after reaching agreement on all terms, it told Jordan Panel that it had been selected for the job, and directed the company to start work.

The court disagreed. According to the judges, the parties did not have an enforceable contract because the term sheet provided that it was not binding prior to entering a written contract.

## The Way We See It

When negotiating with a vendor on a substantial piece of work, you'd be well advised at the outset of negotiations to note that you do not intend to be bound to any terms until execution of a contract. On the flip side, when you're the vendor, be sure that you execute a contract before you start the job if the prospective client has made the negotiations subject to such a term. Otherwise, you could find yourself in the same position as the subcontractor in the Jordan case - believing that binding terms had been agreed, and commencing work at the client's request, but with no contract rights against the client.

### EMPLOYERS CAN OFTEN AVOID COSTLY DISCRIMINATION TRIALS THANKS TO WRITTEN EMPLOYEE PERFORMANCE REVIEWS

A recent court decision affirming a grant of summary judgment to an employer defending against an employee's race discrimination and unlawful retaliation claims highlights the importance of maintaining written performance reviews for all employees. Such evaluations can mean the difference between having to endure a costly, messy and time-consuming trial or having an employee's claims dismissed before trial.

In *Brown v. Illinois Dep't of Natural Resources*, 499 f.3d 675 (7th Cir. 2007), the employer produced a well-documented record of the employee's performance problems and client complaints as justification for firing him. The employee relied on his own opinions of his performance to make a case for discrimination. The court concluded that the employee's documented performance problems provided sufficient grounds to dismiss the case.

# IN THE COURTROOM

The Way We See it



## The Way We See It

The Brown decision is a vivid reminder of how critical it is for employers to maintain honest and candid employee performance reviews. In Brown, the employer avoided having to go to trial on a race discrimination claim, a case that would have put at issue comparisons between the plaintiff's job performance and the performance of the four white employees with whom he compared himself. Discrimination claims alleging that an employer treated "similarly-situated" employees more favorably than the plaintiff often unfairly expose innocent co-workers to public scrutiny at trial. Personnel files of co-workers may be introduced as evidence and supervisors may be compelled to testify about events and salary information that co-workers reasonably expected would remain private.

The Brown case shows how simple it can be, in some cases, to shut down meritless discrimination claims before they ever get to trial. Documentation of performance issues does not have to be exhausting or elaborate. Straightforward written notes reflecting a supervisor's view of an employee's performance can be enough. If an employee is given copies of these evaluations, an employer will be in an even stronger position to fend off meritless claims.

## WHEN SHOW BUSINESS HAD NO BUSINESS... MEDIATION HELPED

The November 2007 Broadway stagehands strike kept many of the houses on the Great White Way dark for several weeks, resulting in estimated losses to theater owners and producers of \$35 million, or more than \$2 million per day. And the stagehands were out of work and not being paid during that time as well. These losses might have been averted had the parties used mediation at the start of the strike. But both sides took a hard line, and did not engage in mediation until the eighth day of the strike. By waiting more than a week to start formal negotiations, both sides lost the momentum they had created in pre-strike attempts to resolve their dispute. Had their last contract included a mandatory mediation provision, they might have had a mechanism to ensure that talks moved more quickly.

## The Way We See It

There were a lot of losses as the strike wore on, much of which could have been avoided. At the end we saw how mediation and arbitration can play a key role in promoting a settlement. This little drama shows how important it is for all businesses to examine all their contracts to see if they have the best mechanism to preserve their contractual rights. Many companies are taking advantage of the growing array of arbitration and mediation providers to resolve disputes more efficiently and cheaply and with more goodwill than is typically seen in litigation.

You should view all of your employment, vendor, agency-client, and other contracts through a "resolution" lens to ensure they have the right method for you to resolve any potential disputes - be it litigation, arbitration, or mediation and then arbitration.

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